VZCZCXRO8248
RR RUEHDBU RUEHFL RUEHKW RUEHLA RUEHNP RUEHROV RUEHSL RUEHSR
DE RUEHCH #0045/01 0261405
ZNY CCCCC ZZH
R 261405Z JAN 10
FM AMEMBASSY CHISINAU
TO RUEHC/SECSTATE WASHDC 8810
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 02 CHISINAU 000045

SIPDIS

STATE FOR EUR/UMB

E.O. 12958: DECL: 01/20/2020
TAGS: ECON EFIN EPET EAID RS MD
SUBJECT: IMF CONDITIONS FOR AGREEMENT WITH
MOLDOVA

Classified by: Ambassador Asif J. Chaudhry for
reasons 1.4 (b) and (d)

¶1. (C?) Summary: In late October, the new four-party Alliance for European Integration (AIE)-coalition government of Moldova (GOM) negotiated a preliminary agreement with the IMF for a USD 588 million loan. IMF resident representative Tokhir Mirzoev told us on January 15 that the primary conditions of the new agreement were in the areas of budgeting, increasing external reserves and regulating energy tariffs. The GOM met the final condition of setting new energy tariffs on January 14, the final day permitted by the IMF. The IMF board will meet January 29 to formally approve the agreement. End Summary.

IMF Negotiations

¶2. (SBU) The GOM reached a staff agreement for Extended Credit Facility/Stand-by Arrangement with an International Monetary Fund mission for USD 588 million on October 28, 2009. The IMF will allocate the funds in installments until 2012. In addition, the agreement enabled the GOM immediately to use its special drawing rights of about 180 million dollars for budget support. The IMF board will review the agreement on January 29,
¶2010. The new program will follow the previous three-year IMF agreement which expired in May
¶2009.

IMF Conditions

¶3. (C) In a January 15 meeting with Pol/Econ Officer, IMF resident representative Tokhir Mirzoev listed the five major conditions in the new agreement as (1) adjusting the 2009 budget, (2) adopting a realistic 2010 budget, (3) replenishing the external reserves of the National Bank of Moldova (NBM), (4) granting tariff setting authority to the National Agency for Energy Regulation (ANRE) and depoliticizing the appointment of directors to the ANRE board, and (5) setting new energy tariffs.

Budget Conditions

¶4. (C) Mirzoev noted that the GOM adjusted the overly optimistic 2009 budget it inherited from the previous Party of Communists (PCRM) GOM by passing amendments reducing expenditures on December 3, 2009. Among the measures the new GOM

took to reduce expenditures was a freeze on salary increases promised by the previous government. (Note: The previous Communist-led GOM had promised raises of up to 25 percent -- to go into effect on October 1, 2009 -- to government employees and military officers. Minister of Economy Lazar told us during negotiations in October with the IMF that the IMF demanded a freeze on public-sector wages as a condition for agreement. End Note.)

¶5. (SBU) Mirzoev said that the 2010 budget, which Parliament approved on December 23, 2009, held to the IMF target of a deficit under seven percent of GDP and increased taxes on tobacco, alcohol, perfume and jewelry in order to increase revenues. Under IMF conditions, the budget deficit should not exceed seven percent in 2010, five percent in 2011 and three percent in 2012.

Reserve Conditions

¶6. (SBU) Regarding external reserves, from January 1, 2010 to September 30, 2010, reserves fell 23 percent from USD 1,672 billion to USD 1,290 billion. The NBM increased external reserves each of the last three months of 2009 after the new GOM came into office on September 25, 2009. Reserves increased by USD 12 million in October, USD 72 million in November and 106 million in December to total USD 1,480,250,000 on December 31, 2009.

CHISINAU 00000045 002 OF 002

Energy Conditions

¶7. (SBU) In order to meet the fourth IMF condition and depoliticize the setting of energy tariffs, the GOM moved the responsibility for setting rates from the municipality of Chisinau to the ANRE board of directors. In a further step, the power to appoint the five members of the board was transferred from the GOM to the Parliament. These changes were introduced in December.

¶8. (C) However, the GOM took longer to meet the IMF's final condition on energy tariffs, which led to some tense moments since the IMF board required fulfillment of all conditions two weeks prior to its scheduled meeting on January 29. On January 14, the ANRE finally set new tariffs for gas, electricity and heating, raising them by 16.5 percent, 20 percent, and 29.2 percent, respectively. The new rates were officially announced on January 15. Mirzoev told us that he, World Bank Country Director Melanie Marlett, and GOM officials worked late into the evening of January 14 to ensure that the GOM had adequately met the IMF conditions in this area.

Comment

¶9. (C) The new GOM continues to make hard choices in its efforts to deal with the economic crisis. The AIE coalition had less than three months to formulate a new budget and also introduce amendments to the 2009 budget to reduce expenditures. While working diligently to fulfill the conditions of the new IMF agreement, the GOM now must consider the possibility of new parliamentary elections in fall 2010. The substantial increases in energy costs will hit the poorer sectors of society hard and provide

political fodder for the PCRM. The PCRM is already focusing on the increased energy tariffs as an attack on the weak and defenseless members of society.

CHAUDHRY